

Message Text

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PAGE 01 BELGRA 04901 01 OF 02 271002Z

12
ACTION EUR-12

INFO OCT-01 NEA-10 ISO-00 EB-07 CIAE-00 INR-07 NSAE-00

/037 W

----- 029052

R 270730Z JUN 76

FM AMEMBASSY BELGRADE

TO USDOC WASHDC

SECSTATE WASHDC 7518

USDA WASHDC

USINT BAGHDAD

INFO AMCONSUL ZAGREB

AMEMBASSY TEHRAN

AMEMBASSY DAMASCUS

AMEMBASSY CAIRO

AMEMBASSY KUWAIT

AMEMBASSY LONDON

USYEC - VIRGINIA YORIO FOR J.S. WALKER USYEC

GENERAL ELECTRIC COMPANY

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UNCLAS SECTION 1 OF 2 BELGRADE 4901

USDOC ALSO FOR CAGNE

E.O. 11652: NA

TAGS: BEXP BTIO BAGB IZ YO US

SUBJ: U.S.-YUGOSLAV BUSINESS COOPERATION IN IRAQ

REF: 1975 BELGRADE A-531

1. SUMMARY: U.S-YUGOSLAV COOPERATION ON MAJOR PROJECTS
IN IRAQ CAN LEAD TO INCREMENTAL U.S. EXPORTS TO IRAQ
WORTH MINIMUM \$100 MILLION PER YEAR. U.S. FIRMS HAVE WON
A FAR SMALLER SHARE OF MAJOR PROJECT PRIME CONTRACTS
IN IRAQ THAN THE SITUATION APPEARS TO WARRANT, WHILE
YUGOSLAVS HAVE HAD EXTRAORDINARY SUCCESSES. SEEMS
LIKELY THAT U.S. FIRMS MAY WIN MORE MAJOR PROJECT
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PAGE 02 BELGRA 04901 01 OF 02 271002Z

CONTRACTS IN COOPERATION WITH YUGOSLAVS THAN WOULD BE

THE CASE IN HEAD-ON COMPETITION. YUGOSLAV FIRMS BRING TO MAJOR PROJECT ACTIVITY IN IRAQ ABUNDANT AND RELATIVELY INEXPENSIVE SKILLED LABOR, A SOLID LOCAL REPUTATION FOR HONEST COST-ACCOUNTING AS WELL AS COMPETENCE IN CIVIL ENGINEERING AND ERECTION SKILLS AND GOOD WORKING RAPPORT WITH IRAQI OFFICIALS AND LABORERS. OPPORTUNITIES FOR U.S. COOPERATION WITH YUGOSLAVS RANGE FROM DOWNSTREAM SUPPLY OF EQUIPMENT AND TECHNOLOGY TO UPSTREAM PARTICIPATION FROM EARLIEST DAYS OF PROJECT PLANNING IN DESIGN, CONSULTING AND TRAINING PHASES OF TURN-KEY SCHEMES. UNUSUALLY STRONG YUGOSLAV POSITION ON MAJOR PROJECTS IN IRAQ LIKELY TO LAST THROUGH 1976-1980 IRAQI FIVE YEAR DEVELOPMENT PLAN PERIOD. GENERAL APPROACH RECOMMENDED FOR FIELD AND WASHINGTON SUPPORT OF U.S.-YUGOSLAV BUSINESS ACTIVITIES IN IRAQ IS "RIFLE RATHER THAN SHOTGUN" - CONCENTRATION UPON INDIVIDUAL PROJECTS AND EFFORT TO MATCH UP SUITABLE U.S. AND YUGOSLAV FIRMS ON APPROPRIATE PROJECTS. END SUMMARY.

2. USINT BAGHDAD COMATT KILLOUGH VISITED BELGRADE JUL 12-15 TO PROBE WITH AMEMBASSY HYPOTHESIS THAT RECENT SERIES OF MAJOR PROJECTS AWARDED BY GOVT OF IRAQ TO YUGOSLAV FIRMS OFFERS EXTRAORDINARY OPPORTUNITY FOR U.S. FIRMS EXPAND THEIR ACTIVITIES IN IRAQ. AFTER SERIES OF MEETINGS WITH KEY EXECUTIVES OF SELECTED YUGOSLAV FIRMS ACTIVE IN IRAQ, WE AGREE THAT IRAQ IN PERIOD 1976-1980 OFFERS EXTRAORDINARY OPPORTUNITIES FOR MUTUALLY PROFITABLE U.S.-YUGOSLAV COOPERATION ON MAJOR PROJECTS IN FOLLOWING AREAS INTER ALIA: URBAN WATER PURIFICATION, ROADBUILDING, ELECTRIC POWER GENERATION AND TRANSMISSION, DAMS, IRRIGATION, DAIRY AND POULTRY FARMS, PORT AND RIVER DEVELOPMENT, HOUSING, GAS AND OILFIELD DEVELOPMENT.

3. WE BELIEVE ELEMENTS OF MOST COST-EFFECTIVE APPROACH TO TRIANGULAR U.S.-YUGOSLAV-IRAQI COOPERATION ARE FOLLOWING:

(A) CONCENTRATION ON MAJOR PROJECTS OF PENDING
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PAGE 03 BELGRA 04901 01 OF 02 271002Z

IRAQI 1976-1980 FIVE YEAR DEVELOPMENT PLAN;
(B) GIVING PRIMARY (BUT NOT EXCLUSIVE) ATTENTION TO THOSE YUGOSLAV AND U.S. FIRMS NOW PRESENT IN IRAQ OR YUGOSLAVIA OR ACTIVELY SEEKING ENTER IRAQI MARKET. THIS WOULD INCLUDE MEMBERS OF PAST AND FUTURE TRADE MISSIONS TO IRAQ.
(C) TAILORED INTRODUCTION BY AMEMBASSY BELGRADE OR USINT BAGHDAD AS APPROPRIATE OF AMERICANS FIRMS

TO YUGOSLAV FIRMS AND VICE VERSA WHEN MATCHUP APPEARS
POSSIBLE.

(D) USE OF U.S.-YUGOSLAV ECONOMIC COUNCIL AS
FORUM TO HELP U.S. BUSINESSMEN LEARN ABOUT AND FOCUS
ON POTENTIAL FOR TRIANGULAR PROJECT WORK IN IRAQ.

4. SINCE LOCATION OF KEY DECISION MAKERS, BUYERS,
OR INFORMATION ABOUT YUGOSLAV MAJOR PROJECTS IN IRAQ
MAY AT ONE TIME OR OTHER BE EITHER YUGOSLAVIA OR
IRAQ, WE SEE NO NEED FOR CUT-AND-DRY DIVISION
OF LABOR BETWEEN AMEMBASSY BELGRADE AND USINT BAGHDAD
OR THE RELEVANT GEOGRAPHIC DIVISIONS IN STATE, USDOC
AND USDA.

5. ALTHOUGH POSSIBLY NOT TRUE IN OTHER
LDCS WHERE YUGOSLAVS ARE ACTIVE, APPEARS
THAT PRINCIPAL YUGOSLAV CONTRIBUTIONS TO MAJOR PROJECTS
IN IRAQ WILL BE WEIGHTED MORE TOWARDS SERVICES THAN
HARDWARE. THERE ARE, FOR INSTANCE, NOW 4,000
YUGOSLAVS IN IRAQ AND, ACCORDING TO JULY 15 BELGRADE
PRESS ARTICLE, VISITING IRAQI MINISTER OF
TRANSPORTATION ABDUL LATIF SHARIF STATED GOI WOULD
LIKE TO SEE THAT NUMBER RISE TO 10,000 IN FUTURE. IN
ADDITION TO SKILLED, SEMISKILLED AND EVEN UNSKILLED
WORKERS, OTHER SERVICES YUGOSLAVS CAN PROVIDE INCLUDE
CONTRACT MANAGEMENT, COST ACCOUNTING, EQUIPMENT

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PAGE 01 BELGRA 04901 02 OF 02 271024Z

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UNCLAS SECTION 2 OF 2 BELGRADE 4901

PROCUREMENT FROM INTERNATIONAL SOURCES, CIVIL
ENGINEERING AND ERECTION. WHEN, HOWEVER, YUGOSLAVS
ALSO PROVIDE DESIGN AND CONSULTANCY SERVICES, THEY
RUN RISK THAT TECHNOLOGY LEVEL OFFERED WOULD BE
SUBSTANTIALLY AND OBVIOUSLY TO IRAQUIS, SOMEWHAT
BEHIND THE U.S., WEST GERMANS OR JAPANESE COULD
PROVIDE. THIS FACT MAY MAKE IT INCREASINGLY
ATTRACTIVE FOR YUGOSLAVS BRING IN U.S. SKILLS AT
EARLIEST PHASE OF FUTURE TURN-KEY PROPOSALS. IN MOST
CASES, GOI INSISTENCE ON SPEED OF PERFORMANCE WILL
PROBABLY COMPEL YUGOSLAV PRIME CONTRACTORS PROCURE
NON-YUGOSLAV PRODUCED CAPITAL AND CONSTRUCTION
EQUIPMENT, ALTHOUGH YUGOSLAVS CAPABLE IN CERTAIN
AREAS.

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PAGE 02 BELGRA 04901 02 OF 02 271024Z

6. RECOMMEND USG PROMOTIONAL ACTIVITIES: IN ADDITION
TO GENERAL MEASURES PROPOSED PARA THREE ABOVE, WE
RECOMMEND FOLLOWING CONCRETE ACTIONS:

(A) IMMEDIATE FOLLOW-UP BY USINT BAGHDAD ON RECENT
USINT COMATT VISIT TO BELGRADE. THIS WILL MAINLY TAKE
FORM OF MESSAGES WITH INFO COPIES TO WASHINGTON AND
BELGRADE ABOUT SPECIFIC YUGOSLAV PROJECTS IN IRAQ TO
INDIVIDUAL U.S. FIRMS KNOWN TO BE IN POSITION TO
RESPOND.

(B) STATE AND COMMERCE TO MAKE AVAILABLE TO
U.S. BUSINESSMEN THREE ATTACHMENTS TO EXCELLENT
1974 AIRGRAM (REFAIR) "POSSIBLE U.S.-YUGOSLAV
ECONOMIC COOPERATION IN LESS DEVELOPED COUNTRIES".
REFAIR HIGHLIGHTS SUCH YUGOSLAV STRENGTHS IN MIDDLE
EAST AND OTHER DEVELOPING AREAS AS GOOD
REPUTATION BASED ON PAST PERFORMANCE, ABILITY PROVIDE
LOW-COST, RELIABLE ENGINEERING, CONSTRUCTION,
ASSEMBLY, INSTALLATION AND AUXILIARY SERVICES,
SIZEABLE YUGOSLAV LABOR FORCE, ABILITY TO TRAIN AND
MANAGE HOST COUNTRY LABOR, SOME PLANNING AND
DESIGN CAPACITY AND, IN THOSE COUNTRIES (SUCH AS
IRAQ) CONSIDERING THEMSELVES "NON-ALIGNED", AN

ELEMENT OF SPECIAL POLITICAL ACCEPTABILITY AT HOST GOVERNMENT.

(C) PROGRAM TO BE PRESENTED BY USDOC/CAGNE AT DECEMBER 1976 MEETING IN NEW YORK OF U.S./YUGOSLAV ECONOMIC COUNCIL, IF COUNCIL CONCURS. PRESENTATION MIGHT INCLUDE ANY SUCCESS STORIES WHICH DEVELOP IN INTERIM AND CASE-BY-CASE PROSPECTUS ON FUTURE MAJOR PROJECTS IN IRAQ.

(D) USDOC AND STATE CONSIDER BRIEFING USDOC AND IOGA TRADE MISSIONS PLANNING VISIT IRAQ ON PROSPECTS FOR WORKING WITH YUGOSLAVS IN IRAQ. USINT BAGHDAD WOULD THEN ASSURE THAT INTERESTED U.S. MISSION MEMBERS MEET YUGOSLAV COMPANY REPS IN BAGHDAD AND, FINALLY, AMEMBASSY BELGRADE WOULD SUPPORT ANY INDIVIDUAL MISSION MEMBERS ELECTING TO VISIT YUGOSLAVIA AT CONCLUSION OF MISSION.

7. LARGE, CONSTRUCTION-ORIENTED U.S. BUSINESS COMMUNITY IN IRAN APPEARS UNUSUALLY WELL-POSITIONED
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PAGE 03 BELGRA 04901 02 OF 02 271024Z

TO TAKE ADVANTAGE OF TRIANGULAR PROJECT ACTIVITY IN IRAQ. BOTH AMEMBASSY BELGRADE AND USINT BAGHDAD SHOULD, THEREFORE, CONTINUE TO SEND INFO COPIES TO TEHRAN OF KEY MESSAGES ON THIS SUBJECT.

8. CONCLUSION: ALTHOUGH U.S. FIRMS HAVE MADE REMARKABLE GAINS IN IRAQI MARKET SINCE MID-1973 (WHEN GOI REMOVED BAN ON U.S. PRODUCTS), PENETRATION HAS BEEN UNEVEN AND U.S. FIRMS HAVE LOST OUT, GENERALLY BECAUSE OF HIGH COSTS, ON NUMBER OF PROJECTS FOR WHICH GOI HAD CONCEDED TECHNICAL SUPERIORITY TO U.S. PROPOSAL. IN MOST SUCH CASES A YUGOSLAV SERVICE COMPONENT MIGHT HAVE LOWERED COSTS DECISIVELY. CONVERSELY U.S. PARTICIPATION IN YUGOSLAV MAJOR PROJECT PROPOSALS IN IRAQ WOULD GREATLY ENHANCE PROSPECTS FOR PROCUREMENT IN U.S. OF MAJOR PORTIONS OF HARDWARE AND/OR LIVESTOCK REQUIRED FOR PROJECT. AS USINT BAGHDAD HAS ESTIMATED BEFORE, PROSPECT APPEARS WELL ESTABLISHED FOR INCREMENTAL U.S. EXPORTS (INCLUDING INVISIBLES) TO IRAQ OF \$100 MILLION PER YEAR 1976-1980.

9. U.S.-YUGOSLAV COOPERATION IN IRAQ IS ROOTED IN SELF-INTEREST OF ALL THREE PARTIES. KEY GOI OFFICIALS WHILE FREQUENTLY LAMENTING RELATIVE LACK OF U.S. ATTENTION TO MAJOR PROJECT OPPORTUNITIES IN IRAQ, HAVE ALSO INDICATED THAT SOME FORM OF U.S.-YUGOSLAV JOINT PROPOSAL WOULD GREATLY INCREASE LIKELIHOOD OF U.S. SUCCESS. FROM YUGOSLAV COMPANY POINT OF VIEW,

SUCCESSFUL COLLABORATION WITH U.S. PARTNER IN IRAQ
WOULD HAVE NUMBER OF PLUSSES, INCLUDING POSSIBILITY
OF LATER COLLABORATION IN COUNTRIES SUCH AS
IRAN OR BAHRAIN WHERE YUGOSLAV POSITION IS RELATIVELY
WEAK AND OPPORTUNITY FOR YUGOSLAV PARTNER TO MASTER
GENERALLY MORE ADVANCED U.S. ENGINEERING AND
CONSTRUCTION TECHNIQUES. FROM VIEWPOINT OF AMERICAN
FIRMS COLLABORATION WITH YUGOSLAVS WOULD LESSEN RISKS
OF MAKING MISTAKES ON COST OF LABOR ESTIMATES AND OTHER
MATTERS DUE TO LONG ABSENCE OF U.S. FIRMS FROM IRAQ
AFTER 1967 BREAK IN U.S.-IRAQI DIPLOMATIC RELATIONS.

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PAGE 04 BELGRA 04901 02 OF 02 271024Z

10. WE ALSO WISH MAKE CLEAR THAT THIS PROPOSAL
CONSISTENT WITH EMBASSY'S POLICY ASSESSMENT. WE
SUPPORT THIRD COUNTRY JOINT VENTURES OF THIS KIND
IN IRAQ IF THERE WILL BE GOOD COMMERCIAL RETURNS
FOR U.S. FIRMS WHO ARE PREPARED COOPERATE WITH
YUGOSLAV FIRMS IN IRAQ. ONLY WAY TO TEST HYPOTHESIS
THAT SUCH COMMERCIAL RETURNS MAY BE AVAILABLE IS ON
CASE-BY-CASE BASIS AS PROPOSED ABOVE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 27 JUN 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BELGRA04901
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760288-1114
From: BELGRADE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760614/aaaaalty.tel
Line Count: 304
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 76 BELGRADE A-531
Review Action: RELEASED, APPROVED
Review Authority: blochd0
Review Comment: n/a
Review Content Flags:
Review Date: 12 FEB 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 FEB 2004 by PhilliR0>; APPROVED <16 DEC 2004 by blochd0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: U.S.-YUGOSLAV BUSINESS COOPERATION IN IRAQ
TAGS: BEXP, BTIO, BAGB, IZ, YO, US
To: COM
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006